

2. Certification Page

Complete the certification page as follows:

- ♦ **Facility's Name and Address.** Indicate the exact name of the facility (the name as it appears on the state license). BE CONSISTENT! The address line must be completed.
- ♦ **Federal Identification Number.** Enter the seven-digit number assigned to the facility by the Department of Human Services. Facilities which offer more than one level of care have more than one vendor number.
- ♦ **Type of Control (Item A).** Indicate the ownership or auspices under which the facility is operated. (Check one only.)
- ♦ **Accounting Basis (Item B).** Indicate which accounting basis is used by the facility by placing a check mark next to the applicable method. The three methods are described as follows:
 - Accrual: Recording revenues when earned and expense when incurred.
 - Modified Cash: Recording revenue when received and expense when incurred.
 - Cash: Recording revenue when received and expense when paid, after giving effect to adjustments for asset purchases, etc., and depreciation.

If you do not use the accrual basis of accounting, you must adjust recorded amounts to the accrual basis. This is necessary to obtain information which is comparable among facilities.

For example, when expenses are incurred in the last month of a reporting period but are paid in the first month of the following report period, include them in the report period in which they are incurred, and not in the report period when paid.

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Include expenses which pertain to a whole year (such as dues, property taxes, insurance premiums, professional fees, and similar items) in each six-month report in equal amounts. Take and price physical inventories of supplies and adjust expense accounts at the end of each reporting period.

- ◆ **Ownership Information (Item C).** Enter complete and accurate ownership information, including all individuals holding a five percent or greater interest.
- ◆ **Number of Public Assistance Recipients (Item D).** Complete Item D to provide the required statistical data. Obtain the census figures on the last day of the month ending the reporting period (per either calendar or fiscal reporting). The report will be returned for completion if Item D is not completed.
- ◆ **Statistical Data (Item E).** Compute total bed days (Item E-3) by multiplying licensed capacity by the total number of days in the reporting period.

Total inpatient days for the period (Item E-4) is the most important statistic in the report. A "patient day" is that period of service rendered a resident between the census-taking hours on two successive days. It is essential that this statistic be accurate and not an estimate of days of care provided.

Maintain a daily census summary to ensure the needed statistical accuracy. This summary must show the resident count at the beginning of the day, admissions, discharges, and the resident count at the end of the day.

Include all private-pay and public assistance residents occupying a bed or paying for reserve bed days in the facility during the reporting period. Include the day of discharge only when the resident was admitted that same day.

- ♦ **Opinion of Accountant (Item F).** An opinion of a certified public accountant or a public accountant may accompany this report. The Department may require that a facility include the opinion of an accountant as to the fairness of the presentation of reported expense if adjustments made to prior reports indicate disregard of the certification and reporting instructions.

Always indicate the person to be contacted in the event the agents of the Department have questions concerning the report.

- ♦ **Form of Certification and Signatures (Item G).** An authorized officer of the facility must sign the certification. The report must also be signed by the preparer, if other than the authorized officer.

3. Schedule A: Revenues

List revenues as recorded in the general books and records. Revenues are affected to a great extent by the accounting basis and procedures used. Expense recoveries credited to expense accounts should not be reclassified to be reflected as revenues for purposes of this report.

Enter revenues related to services rendered which are not an obligation of the state in Column 2 to the extent of the related expense. These items include beauty and barber shop and personal purchases for residents. Also enter in Column 2 revenues from items and services which are available to residents through other Medicaid vendors.

Apply revenues not related to resident care (Other Revenue Centers) in reduction of the related expense. Enter on Schedule A in Column 2:

- ♦ The cost, if known (such as employee meals or telephone expense).
- ♦ The gross revenue, if costs cannot be determined.

Investment income adjustment is necessary only if interest expense is incurred, and only to the extent of the interest expense.

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Handle income from the sale of craft products as follows:

- ◆ When the income is minimal and the raw material is furnished by either the resident or the facility, the income need not be applied as a reduction in expense.
- ◆ When the income is substantial and the income is turned over to the facility to offset the cost of raw material, apply the income as an offset of the indicated craft expense.

Apply laundry revenue to laundry expense.

Open lines are provided for entry of sundry sources of revenue not directly related to residents, such as pay telephone commissions, contributions and grants received, etc. These items need not be applied as a reduction of expense.

Report hospice agency revenues on Schedule A under "Other Revenue Centers" as an add-on line item under "Other." Extend this same amount into the second column of Schedule A, as it will be used as an expense offset on Schedule C.

The cross-reference line item for this expense offset on Schedule C should be line 35, 36 or 37. A description of the adjustment would be "Hospice Reimbursement." Record the amount in Column 2 as a Schedule A adjustment.

Report accounts receivable charged off or provision for uncollectable accounts on Schedule A as a deduction from gross revenue. However, if the facility accounts for such revenue deductions as an administrative expense, enter the amounts on Schedule B as "other expense not related to patient care."

The amounts entered on Schedule A, Column 2, are transferred to Schedule C, Column 2. The totals of these columns on both schedules should agree.

For more information on how to apply these instructions to routine services, pharmacy items, medical supplies, ancillary services, and personal needs items, see the explanatory sections that follow.

a. Routine Services

Classify revenue from residents sufficiently in the accounting records to allow preparation of the schedule. It is essential that "routine daily service" represent only the established charge for daily care, excluding additional charges for other services, if any.

Charges for routine services must include all items of services, equipment, and supplies which facilities incur in the provision of routine services. Examples of services and supplies that must be included in routine services are:

- ◆ Residents' rooms and furnishings (as required by licensing rules), including maintenance.
- ◆ General care and supervision of residents.
- ◆ Necessary supervision or assistance with eating, dressing, bathing, grooming, and moving about.
- ◆ Laundry services, including washing personal clothing.
- ◆ Provision of activities and socialization experience for residents.

For nursing homes, routine services must additionally include:

- ◆ All general services, including, but not limited to, administration of oxygen and related medications, hand-feeding, incontinence care, tray service, and enemas.
- ◆ Items furnished routinely and relatively uniformly to all residents, such as patient gowns, water pitchers, basins and bed pans.
- ◆ Items stocked at nursing stations or on the floor in gross supply and distributed or used individually, such as alcohol, applicators, cotton balls, bandaids, antacids, aspirin and other nonlegend drugs ordinarily kept on hand, suppositories, and tongue depressors.
- ◆ Items which are used by individual residents but which are reusable by others and expected to be available, such as ice bags, bed rails, canes, crutches, walkers, wheelchairs, traction equipment, and other durable medical equipment.

- ◆ Special dietary supplements used for tube feeding or oral feeding, such as an elemental high nitrogen diet, even if written as a prescription item by a physician. (These supplements have been classified by the Food and Drug Administration as a food rather than a drug.)

ICF/MRs must also include the following as routine services:

- ◆ Training and habilitation services.
- ◆ Physical and occupational therapy services.
- ◆ Speech pathology and audiology services.
- ◆ Recreation services.

b. Pharmacy Items

Approved legend drugs requiring a prescription by law and insulin are paid for directly by Medicaid. Costs of these items must be billed by and paid to a retail pharmacy or a facility having a retail pharmacy license. If the facility pays for these costs and is subsequently reimbursed, these reimbursements must offset the expense.

The following items are also provided to residents by a pharmacy and billed by the pharmacy directly to Medicaid:

- ◆ Catheter (indwelling Foley)
- ◆ Colostomy and ileostomy appliances
- ◆ Colostomy and ileostomy care dressings, liquid adhesive, and adhesive tape
- ◆ Diabetic supplies (needles and syringe, disposable or reusable, testape, Clinitest tablets and Clinistix)
- ◆ Disposable catheterization tray or sets
- ◆ Disposable irrigation trays or sets (sterile)
- ◆ Disposable saline enemas
- ◆ Insulin
- ◆ Prescription drugs and devices
- ◆ Vitamin pills, prescription (prior approval required)

If the facility pays for these costs and is subsequently reimbursed, those reimbursements must offset the expense.

c. Medical Supplies

With certain exceptions, medical supplies must be provided to Medicaid recipients in NFs and ICF/MRs without additional charge. The cost of these supplies or services must be included in the facility's routine service costs (per diem rate). Examples of these supplies or services include:

- ◆ Air mattresses
- ◆ Alcohol
- ◆ Asepto syringes
- ◆ Autoclaves and sterilizers
- ◆ Bed linen, towels, washcloths
- ◆ Bedpans, urinals
- ◆ Bed rails, footboards, cradles
- ◆ Bath basin, emesis basin, basin for irrigations
- ◆ Charting supplies
- ◆ Chux, tripads, toilet paper, sanitary napkins, paper towels, tissues, etc.
- ◆ Denture cups, mouthwash cups
- ◆ Disinfectant solutions
- ◆ Disposable sterile nursing supplies, such as cotton face masks, gloves, tape
- ◆ Drinking tubes
- ◆ Enema equipment, douche nozzle
- ◆ Flashlights
- ◆ Fleece pads
- ◆ Foot tubs
- ◆ Gauze pads, dressings, and bandages
- ◆ Hydraulic lifts
- ◆ Hypodermic syringes and needles
- ◆ Ice bags or equivalent
- ◆ Incontinence pads or pants
- ◆ Infrared lamps or equivalent
- ◆ Irrigating stands
- ◆ Intermittent positive pressure breathing equipment
- ◆ Intravenous equipment
- ◆ Laundry services
- ◆ Lubricating jelly and other lubricants
- ◆ Moisture-proof draw sheets
- ◆ Moisture-proof pillow covers
- ◆ Nasogastric feeding equipment
- ◆ Occupational therapy
- ◆ Oxygen
- ◆ Oxygen masks, regulator, humidifiers, hoses, nasal catheters
- ◆ Paper handkerchiefs
- ◆ Physical therapy
- ◆ Rubber goods, such as rectal tubes
- ◆ Rubbing compounds, such as alcohol
- ◆ Scissors, forceps, and nail files
- ◆ Soaking compounds
- ◆ Soap containers
- ◆ Sphygmomanometers, stethoscopes, and other examination equipment
- ◆ Stryker pads

- ◆ Subcutaneous equipment
- ◆ Suction apparatus and gavage tubing
- ◆ Thermometers
- ◆ Tongue depressors and applicators
- ◆ Tourniquets
- ◆ Tracheotomy care equipment
- ◆ Weighing scales
- ◆ Wheelchairs, walkers, crutches, and canes

Some medical supplies or services which are charged to the resident are accounted for on Schedule C as "items purchased for resale" and must be posted to Schedule A on the appropriate line. This is not necessary if these supplies or services are provided free of charge to Medicaid residents and the charges are for private-pay residents only.

Examples of these supplies include vitamins which are not prescribed, liniment, and certain other items which contribute to the comfort of the recipient, but have no therapeutic value.

d. Ancillary Services

When the facility charges private-pay residents for pharmacy, medical supplies, occupational and recreational therapy, therapy supplies, and related services, such as reality therapy, rehabilitation programs, and temporary private duty nursing, revenue from these sources must be applied in reduction of the related expense.

The resulting expense, after adjustment, should not be a negative figure. A revenue classification "miscellaneous" or "sundry" ordinarily requires an analysis and determination of the amounts included which represent expense recoveries or income to be applied in reduction of a related expense.

The following items and services are available to residents through other Medicaid programs, and are billed by the supplying vendor. If the facility pays for these costs and is subsequently reimbursed, those reimbursements must offset the expense.

- ♦ Ambulance service
- ♦ Audiologist services
- ♦ Braces and prosthetic devices
- ♦ Chiropractor services
- ♦ Dental work and equipment
- ♦ Hearing aid batteries and cords
- ♦ Hearing aid repairs
- ♦ Hearing aids
- ♦ Hospital services
- ♦ Modifications to orthopedic shoes
- ♦ Optician and optometrist services
- ♦ Occupational or physical therapy provided in a doctor's office or hospital outpatient clinic
- ♦ Physician services
- ♦ Podiatrist services
- ♦ Repair of medical equipment and appliances
- ♦ Skilled services
- ♦ X-rays, laboratory work

e. Personal Needs Items

Residents may choose to purchase personal needs items through the facility. Revenues from these items must offset the related expense account.

Licensing rules for facilities require that the facility provide materials for activity programs and recreation. Items purchased for general use by the facility should be included in routine service costs and should not be charged to residents.

A resident may purchase a wheelchair from personal needs funds to be used exclusively by the resident. A wheelchair purchased by a resident reverts to the resident's estate or to relatives upon death.

A resident may purchase a television set or an air conditioner from personal needs funds for use in the resident's room only. Appliances must revert to the resident's estate or to relatives. Reasonable charges for electricity for use of appliances are allowable personal needs fund charges, if a like amount is included in Schedule C as a reduction in cost for utilities (Line 31).

In NFs and ICF/MRs, if nonlegend drugs or nonprescription vitamin pills are ordered by a physician, they must be included in routine service charges and are an allowable cost. If a resident requests these items and the items are not ordered by a physician, they may be charged to the resident.

f. Average-Private Pay Rate

To compute the average private pay rate, accumulate the total monthly changes for all private-pay residents for the six-month period. Divide this sum by the total patient days for all private-pay residents for the same period.

“Total monthly changes” include the basic change plus all changes for extra care, services, or supplies.

4. Schedule B: Expense Adjustments

Certain expenses must be eliminated or limited because they are not normally incurred in providing patient care. Rules concerning these expenses are set forth below. The amounts entered on Schedule B are transferred to Schedule C, Column 3. The totals of these columns on both schedules must agree.

The following expenses are not reimbursable:

- ♦ **Income Taxes.** Federal and state income taxes are not allowable as reimbursable costs.
- ♦ **Fees Paid Directors and Nonworking Officers' Salaries.** Fees paid to directors and nonworking officers' salaries are not allowable as reimbursable costs.
- ♦ **Bad Debts.** Bad debts are amounts considered to be uncollectable from accounts and notes receivable which were created or acquired in providing services. Bad debts are not an allowable cost.
- ♦ **Charity Allowances.** Charity allowances are reductions in charges made by the provider of services because of the indigence or medical indigence of the resident. Charity allowances are not an allowable cost.

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- ♦ **Courtesy Allowances.** Courtesy allowances are reductions in charges made by the provider of services because of the indigence or medical indigence of the resident. Courtesy allowances are not an allowable cost.
- ♦ **Entertainment.** Entertainment for which the resident is required to pay is not included as an allowable cost. Entertainment provided by the facility for participation of all residents who are physically and mentally able to participate is an allowable expense. Examples are as follows:
 - Birthday parties.
 - Outside entertainers, exclusive of volunteer groups (religious, high school, community groups, etc.).
 - Activity director salary, unless working as a volunteer.
 - Expenses incurred in the activities program are an allowable expense. (See also the instructions for Personal Needs Items under Schedule A.)
 - Concerts, athletic events, shows and other entertainment which require an outlay of funds by the facility are allowable expenses.
- ♦ **Loan Acquisition Fees and Standby Fees.** Loan acquisition fees and standby fees are not considered part of the current expense of resident care, but should be amortized over the life of the related loan.
- ♦ **Capital Expenditures.** Providers constructing new facilities or expanding existing facilities must receive certificate of need approval from the Iowa Department of Public Health. When prior approval is not obtained, depreciation, interest on borrowed funds and other costs attributable to such capital expenditures are not allowed as reimbursable expenses.
- ♦ **Legal Fees.** Reasonable legal fees are an allowable cost when directly related to patient care. Legal fees related to defense against threatened state license revocation or Medicaid decertification are allowable costs only up to the date a final appeal decision is issued. However, in no case will legal fees related to Medicaid decertification be allowable costs for more than 120 days following the decertification date.

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The following sections give more detailed information on the limits for:

- ◆ Travel expenses.
- ◆ Compensation of owners and related parties.
- ◆ Items furnished by related organizations.
- ◆ Rental costs.
- ◆ Depreciation.
- ◆ Interest.

a. **Travel**

Personal travel and entertainment expenses are not allowable as reimbursable costs. Prorate expenses such as rental or depreciation of a vehicle and travel expenses which include both business and personal expense.

Maintain records to substantiate the indicated charges. Amounts that appear excessive may be limited after considering the specific circumstances. Guidelines relating to this area are as follows:

- ◆ No commuter travel (from private residence to facility and return) is allowed as an audit cost in computing the facility's per diem rate. This includes owners, owner-administrators, administrators, assistant administrators, nursing directors, and all other employees of the facility.
- ◆ The expense of one car, one van, or both, designated for use in transporting residents is an allowable cost. (This restriction on number of vehicles does not apply to ICF/MRs.) Travel related to resident care is allowable. Document all expenses by a sales slip, invoice, or other document describing the expense and identifying the vehicle.
- ◆ Travel for which the resident is required to pay must not be included as a travel expense. If the expense cannot be identified and eliminated from other travel expense, revenue from this source must be included on Schedule A and must offset expense on Schedule C.

- ◆ Expenses associated with association business meetings are allowable if limited to individual members of associations which are members of a national affiliate.
- ◆ Expenses associated with workshops, symposiums, and meetings which provide administrators or department heads with hourly credits required to comply with continuing education requirements for licensing are also allowable expenses.
- ◆ Travel of an emergency nature required for the purchase of supplies or for repairs for machinery, building or equipment is an allowable travel expense.
- ◆ Allowable expenses for resident transport, business meetings, continuing education and emergencies (as described above) are limited to six percent of total administrative expense. This restriction does not apply to ICF/MRs.

At the annual contract review, each facility must verify that it either:

- ◆ Has a transportation plan approved by the Iowa Department of Transportation (DOT),
- ◆ Has notification that it is exempt, is awaiting response from the DOT, or
- ◆ Has been notified that its plan is in noncompliance with requirements of the DOT.

If the facility has a noncompliant plan, the transportation cost of the facility is not allowed in computing the allowable per diem rate of the facility. Statements indicating exemption or compliance are subject to follow-up audit review by the Department. If supportive documentation cannot be produced, then transportation cost will be disallowed.

b. Compensation of Owners or Related Parties

Owners of provider organizations often render services as managers, administrators, or in other capacities. In such cases, it is equitable that reasonable compensation for the services rendered be an allowable cost. To do otherwise would disadvantage these owners in comparison with providers employing persons to perform a similar service.

Ordinarily, compensation paid to proprietors is a distribution of profits. However, where a proprietor renders necessary services for the facility, the facility is in effect employing the proprietor's services. A reasonable compensation for these services is an allowable cost.

For corporate providers, the salaries of owners who are employees are subject to the same requirements of reasonableness of compensation may be determined by reference to, or in comparison with, compensation paid for comparable services and responsibilities in comparable facilities, or it may be determined by other appropriate means.

A reasonable allowance of compensation for services of owners or related parties is an allowable cost, provided the services are actually performed in a necessary function. Maintain adequate time records to justify reported expenses. Adjustments may be necessary to provide compensation as an expense for non-salaried working proprietors and partners.

The following persons are considered **related parties**:

- ◆ Husband and wife;
- ◆ Natural parent, child and sibling;
- ◆ Adopted child and adoptive parent;
- ◆ Grandparent and grandchild;
- ◆ Stepparent, stepchild, stepbrother, and stepsister;
- ◆ Father-in-law, mother-in-law, son-in-law, daughter-in-law, brother-in-law, and sister-in-law.

Compensation means the total benefit received by the owner or related party for the services the proprietor renders to the facility. It includes:

- ◆ Salaries paid for managerial, administrative, professional and other services.
- ◆ Amounts paid by the facility for personal benefits of the proprietor, e.g., health insurance, food or meals, personal utilities, taxes, yard care, etc.
- ◆ The cost of assets and services which the proprietor receives from the facility e.g., life insurance, key man insurance, personal care, etc.
- ◆ Deferred compensation.

Members of religious orders serving under an agreement with their administrative office are allowed salaries equal to those paid to persons performing comparable services. If the facility provides maintenance to such persons (room, board, clothing, etc.), deduct the value of these benefits from the amount otherwise allowed for a person not receiving maintenance.

Necessary means that the function:

- ◆ Is such that if the owner or related party had not rendered the service, the facility would have to employ another person to perform the service.
- ◆ Is pertinent to the operation and sound conduct of the facility.

Reasonable means that the compensation allowance:

- ◆ Is an amount that would ordinarily be paid for comparable services by comparable facilities.
- ◆ Depends upon the facts and circumstances of each case.

Federal financial participation is available for owner's compensation, provided the schedules of payment established by the Department do not exceed the combined payments received by providers from the intermediaries and beneficiaries under Medicare for furnishing comparable services under comparable circumstances.

Guidelines for determining reasonableness have been established based upon a review of compensation of owners and nonowners with the assistance of the regional Health and Human Services office. These guidelines are as follows:

- ♦ **Administrator:** A monthly base maximum compensation is allowed for an administrator, plus a given amount for each licensed bed over 60, not to exceed a set limit per month. An administrator is considered to be involved in ownership of a facility when the administrator holds an interest of five percent or more.
- ♦ **Assistant administrator:** A maximum monthly compensation is allowed for an assistant administrator for a home having a licensed capacity of 151 or more beds.
- ♦ **Nursing director:** The maximum allowed compensation for a director of nursing is 60 percent of the amount allowed for the administrator, or a set amount per month, whichever is greater.
- ♦ **Other employees:** Compensation amounts for other employees must be reasonable and necessary.

Contact the Division of Medical Services for current limits. A notice is issued to all facilities when these limits change.

Management fees are computed on the same basis as the owner-administrator's salary, but the amount paid the resident administrator is deducted. If the parent company can separately identify accounting costs, these costs are allowed.

Expenses related to patient care which are incurred by a central office on behalf of the facility are allowable to the extent that the cost would be allowed if paid directly by the facility.

c. **Items Furnished by Related Organizations**

Costs of supplies furnished by a related party or organization are reimbursable if included in the costs to the related party or organization. However, such costs must not exceed the price of comparable supplies that could be purchased elsewhere. Complete Schedule G, Transactions With Related Organizations, to indicate all items purchased from related parties.

Related to the facility means that the facility, to a significant extent, is associated or affiliated with, or has control of, or is controlled by the organization furnishing the services, facilities, or supplies.

Common ownership means that a person or persons possess significant ownership or equity in the facility and the institution or organization serving the provider.

Control means that a person or an organization has power, directly or indirectly, to significantly influence or direct the actions or policies of an organization or institution.

Where the facility obtains items of service, facilities, or supplies, from an organization, even though it is a separate legal entity, and the organization is owned or controlled by the owners of the provider, in effect the items are obtained from itself.

One example is a corporation building a facility and then leasing it to another corporation controlled by the owner. Reimbursable cost should not exceed the costs for these items to the supplying organization.

However, if the price in the open market for comparable services, facilities, or supplies is lower than the cost to the supplier, the allowable cost to the facility will not exceed the market price.

An exception is provided to this general principle if the facility demonstrates by convincing evidence:

- ♦ That the supplying organization is a bona fide separate organization.
- ♦ That a substantial part of its business activity of the type carried on with the facility is transacted with others than the facility.
- ♦ That there is an open, competitive market for the type of services, facilities, or supplies furnished by the organization.
- ♦ That the services, facilities, or supplies are those which commonly are obtained by institutions such as the facility from other organizations and are not a basic element of patient care originally furnished directly to patients by such institutions.
- ♦ That the charge to the facility is in line with the charge for such services, facilities, or supplies in the open market and no more than the charge made under comparable circumstances to others by the organization for such services, facilities, or supplies.

In such cases, the charges by the supplier for the services, facilities, or supplies must be allowable costs.

d. Rental Costs

When an operator of a participating facility enters into an agreement to rent the facility from the former owner or operator, rental expense must be determined by identifiable property costs and by relationship of the provider to the landlord.

When the provider rents from a nonrelated party, the amount of rental expense must be based on the identified cost of the facility, plus the landlord's other expenses, and a reasonable rate of return, not to exceed actual rent payments.

When the provider rents from a related party, the amount of rental expense must be no more than the amortized cost of the facility plus the landlord's other expenses.

e. **Depreciation**

Depreciation based upon tax cost may be included as a resident cost using only the straight-line method of computation and recognizing the estimated useful life of the asset. When accelerated methods of computation have been elected for income tax purposes, an adjustment must be made.

With any change of ownership of a nursing facility or ICF/MR, including lease arrangement, no increase in the value of the property is allowed in determining the Medicaid rate for the new owner. (Facilities having a change in ownership complete Schedule D-1 for each reporting period.)

For RCFs, the new owner or operator must either:

- ◆ Continue with previous owner's depreciation schedule, or
- ◆ Set up a new depreciation schedule using the amount obtained by deducting the depreciation expenses incurred since July 1, 1980, from the value of depreciable real property. The value will be the sale price or appraised value, whichever is less. (441 IAC 54.3(12)“c”)

f. **Interest**

Necessary and proper interest on both current and capital indebtedness is an allowable cost.

Interest means the cost incurred for the use of borrowed funds. Interest on current indebtedness is the cost incurred for funds borrowed for a relatively short term. This is usually for such purposes as working capital for normal operating expenses.

Interest on capital indebtedness is the cost incurred for funds borrowed for capital purposes, such as acquisition of facilities and equipment and capital investments. Generally, loans for capital purposes are long-term loans.

Necessary means that the interest:

- ♦ Is incurred on a loan made to satisfy a financial need of the provider. Loans which result in excess funds or which provide investments are not considered necessary.
- ♦ Is incurred on a loan made for a purpose reasonably related to patient care. Loans made for the purpose of acquiring capital stock and treasury stock are not considered reasonably related to patient care.
- ♦ Is reduced by investment income, except where such income is from restricted or unrestricted gifts and grants, which are held separate and not mingled with other funds. Income from funded depreciation or a provider's qualified pension fund is not used to reduce interest expense.

Proper means that interest:

- ♦ Is incurred at a rate not in excess of what a prudent borrower would have had to pay in the money market existing when the loan was made.
- ♦ Is paid to a lender not related through control or ownership or personal relationship to the borrowing organization.

To be allowable, interest expense generally must be incurred on indebtedness established with a lender or lending organization not related through control, ownership, or personal relationship to the borrower.

Presence of any of these factors affects the "bargaining" process that usually accompanies the making of a loan, and could suggest an agreement on higher rates of interest or of unnecessary loans.

However, under some circumstances interest on loans to providers by lenders or lending organizations related through control, ownership, or personal relationship to the borrower is allowable as a cost at a rate not in excess of the current interest rate at the time the loan was made. The **current interest rate** is intended to mean **what an investor could receive on funds invested in the locality.**

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Loans must be made under terms and conditions that a prudent borrower would make in arms-length transactions with lending institutions. The intent of this provision is to ensure that loans are legitimate and needed, and that the interest rate is reasonable.

Where the general fund of a provider "borrows" from a donor-restricted fund and pays interest to the restricted fund, this interest expense is an allowable cost.

The same treatment is accorded interest paid by the general fund on money "borrowed" from the funded depreciation account of the provider or from the provider's qualified pension fund. If a provider operated by members of a religious order borrows from the order, interest paid to the order is an allowable cost.

Where funded depreciation is used for purposes other than improvement, replacement, or expansion of facilities or equipment related to patient care, allowable interest expense is reduced to adjust for offsets not made in prior years from earnings on funded depreciation.

A similar treatment is accorded deposits in the provider's qualified pension fund when such deposits are used for other than the purpose for which the fund was established.

g. Change of Facility Ownership

The person responsible for transfer of ownership or for termination is responsible for submission of a final *Financial and Statistical Report* through the date of the transfer. No payment to the new owner will be made until formal notice of the change is received.

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The following situations are defined as transfer of ownership:

- ◆ When a facility is owned by a **partnership**, the removal, addition, or substitution of a partner, in the absence of an express statement to the contrary, dissolves the old partnership and creates a new partnership which is not a party to the previously executed agreement. A transfer of ownership has occurred.
- ◆ When a facility is a **sole proprietorship**, a transfer of title and property to another party constitutes a change of ownership.
- ◆ When the facility is a **corporation**, neither a transfer of corporate stock nor a merger of one or more corporations with the participating corporation surviving is a transfer of ownership. A consolidation of two or more corporations resulting in the creation of a new corporate entity constitutes a change of ownership.
- ◆ When a participating facility is **leased**, a transfer of ownership is considered to have taken place. When the entire facility is leased, the total agreement with the lessor terminates. When only part of the facility is leased, the agreement remains in effect with respect to the unleased portion, but terminates with respect to the leased portion.

With any change of ownership of an NF or ICF/MR (including lease agreements), no increase in the value of the property will be allowed in determining the Medicaid rate for the new owner. When filing the first cost report, the new owner must either:

- ◆ Continue the schedule of depreciation and interest established by the previous owner, OR
- ◆ Choose to claim interest expense using amortization of the actual rate of interest.

The results of the interest expense calculation must not be higher than would be allowed under Medicare principles of reimbursement. Interest must be applied to the allowed depreciable value established by the previous owner, less any down payment made by the new owner.

Other acquisition costs of the new owner will not be allowed. These include legal fees, accounting and administrative costs, travel costs, and the costs of feasibility studies attributable to the negotiation or settlement of the sale or purchase of the property.

In general, follow the provisions of Section 1861 (v)(1)(0) of the Social Security Act regarding payment allowed under Medicare principles of reimbursement at the time of a change of ownership, except that there is no provision for return on equity or recapture of depreciation.

A new owner or lessee wishing to claim a new rate of interest must submit documentation which verifies:

- ◆ The amount of down payment made,
- ◆ The actual rate of interest, and
- ◆ The number of years required for repayment with the next cost report.

In the absence of the necessary supportive documentation, interest and other property costs for all facilities which have changed or will change ownership must continue at the rate allowed the previous owner.

5. Schedule C: Expenses

Expenses reported on Schedule C are divided into the following sections and subsections:

- ◆ Administrative costs
- ◆ Environmental services
- ◆ Patient care service costs
 - Direct patient care costs
 - Support care costs
- ◆ Property costs
- ◆ Other costs

The accounts under these categories are segregated to provide required statistical information. All expense carried on the provider's general ledger must be entered in Column 1.

Column 2 and 3 (Adjustment of Expenses) reflect adjustments from Schedule A and B for items which are not allowable as costs to provide resident care. Column 4 shows the expense related to resident care.

Costs allocated to certain line items on Schedule C are limited. See **SCHEDULE B: EXPENSE ADJUSTMENTS** for an explanation of these limits.

Following is a description of each line of Schedule C.

a. Administrative Costs

LINE 1: ADMINISTRATOR WAGES. Salary of the facility administrator including regular pay, overtime pay, sick pay, holiday pay, vacation pay, bonus, and other compensation paid to the administrator through payroll. See Schedule B instructions for limits that may apply.

LINE 2: BUSINESS OFFICE WAGES. Salaries and wages for other administrative positions, such as assistant administrator, bookkeeper, and clerical support. Include in this line all regular pay, overtime pay, sick pay, holiday pay, vacation pay, bonus, and other compensation paid to administrative staff through payroll.

LINE 3: EMPLOYERS TAXES (ADMINISTRATIVE). Payroll taxes related to the salaries and wages included in lines 1 and 2.

LINE 4: GROUP HEALTH, LIFE, AND RETIREMENT BENEFITS (ADMINISTRATIVE). Health, life and retirement benefits related to the salaries and wages in lines 1 and 2. (Report officer's life insurance on line 93.)

LINE 5: WORKER'S COMP INSURANCE (ADMINISTRATIVE). Worker's compensation insurance expenses related to the salaries and wages in lines 1 and 2.

LINE 6: EMPLOYMENT ADVERTISING AND RECRUITMENT (ADMINISTRATIVE). Costs of advertising for hiring of administrative positions.

LINE 7: CRIMINAL RECORD CHECKS (ADMINISTRATIVE). Costs associated with conducting criminal record checks for positions included in lines 1 and 2.

LINE 8: EDUCATION AND TRAINING (ADMINISTRATIVE). Costs of training seminars and courses, such as registration fees, course materials, and associated travel and lodging costs.

LINE 9: SUPPLIES (ADMINISTRATIVE). Expenses for administrative operations such as computer, postage, copier, and printing supplies.

LINE 10: TELEPHONE. Expenses for telephone and paging services.

LINE 11: EQUIPMENT RENTAL (ADMINISTRATIVE). Rent expense of equipment used to support administrative operations.

LINE 12: HOME OFFICE COSTS. Costs for essential services provided from a central location.

Facilities with a home office or principal headquarters which receive essential services from this office must annually provide a copy of their general ledger trial balance. These facilities must also provide a copy of their grouping schedules that demonstrate how the accounts on their trial balance are grouped by the individual line items on their cost reports.

These schedules must demonstrate the basis for allocation of home office costs to the specific lien items on each facility cost report, including compliance and limitations on:

- ◆ Owner and related party compensation
- ◆ Purchase of services from related parties
- ◆ Allocation methods to Iowa nursing facilities and other businesses
- ◆ Travel and transportation costs
- ◆ Advertising
- ◆ Director's fees and related expenses
- ◆ Contributions
- ◆ Income tax

LINE 13: MANAGEMENT FEES. Costs for management fees of a facility.

LINE 14: ACCOUNTING COSTS, LEGAL, AND OTHER PROFESSIONAL FEES.

Costs for contracted accounting, legal, or other administrative professional services.

LINE 15: GENERAL LIABILITY INSURANCE. Expense of general liability insurance.

LINE 16: TRAVEL, ENTERTAINMENT, AND AUTO. Costs for entertainment, travel other than related to education above, and expenses for agency-owned vehicles when not providing transportation for patients. These expenses are limited to 6% of line 18 minus this line. See Schedule B instructions for other limits that may apply.

LINE 17: ADVERTISING AND PUBLIC RELATIONS. Costs for general advertising of services, marketing, development, promotion, and public relations. This line is limited to \$3,600.

LINE 18: BLANK. Use this line for any miscellaneous administrative costs that do not fit the definitions of the lines above. If more than one type of cost is included in this line, please provide a schedule detailing the costs involved.

LINE 19: TOTAL ADMINISTRATIVE COSTS. Represents the total of all costs reported in lines 1 through 18.

b. Environmental Services Costs

LINE 20: LAUNDRY WAGES. Salaries and wages for positions that provide laundry services. Include in this line all regular pay, overtime pay, sick pay, holiday pay, vacation pay, bonus, and other compensation paid to laundry staff through payroll.

LINE 21: HOUSEKEEPING WAGES. Salaries and wages for positions that provide housekeeping services. Include in this line all regular pay, overtime pay, sick pay, holiday pay, vacation pay, bonus, and other compensation paid to housekeeping staff through payroll.

LINE 22: MAINTENANCE WAGES. Salaries and wages for positions that provide maintenance services. Include in this line all regular pay, overtime pay, sick pay, holiday pay, vacation pay, bonus, and other compensation paid to maintenance staff through payroll.

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LINE 23: EMPLOYERS TAXES (ENVIRONMENTAL). Payroll taxes related to the salaries and wages in lines 20, 21, and 22.

LINE 24: GROUP HEALTH, LIFE, AND RETIREMENT BENEFITS (ENVIRONMENTAL). Health, life and retirement benefits related to the salaries and wages in lines 20, 21, and 22.

LINE 25: WORKER'S COMP INSURANCE (ENVIRONMENTAL). Worker's compensation insurance expenses related to the salaries and wages in lines 20, 21, and 22.

LINE 26: EMPLOYMENT ADVERTISING AND RECRUITMENT (ENVIRONMENTAL). Costs of advertising for hiring of environmental service positions.

LINE 27: CRIMINAL RECORD CHECKS (ENVIRONMENTAL). Costs associated with conducting criminal record checks for positions included in lines 20, 21, and 22.

LINE 28: EDUCATION AND TRAINING (ENVIRONMENTAL). Costs of training seminars and courses, including registration fees, course materials, and associated travel and lodging costs.

LINE 29: SUPPLIES, LAUNDRY. Expenses for supplies used to provide laundry services.

LINE 30: SUPPLIES, HOUSEKEEPING. Expenses for supplies used to provide housekeeping services.

LINE 31: SUPPLIES, MAINTENANCE. Expenses for supplies used to provide maintenance services.

LINE 32: UTILITIES. Electricity, gas, water, sewer, and other utility expenses.

LINE 33: PURCHASED SERVICE, LAUNDRY. Cost of outside contractors to provide laundry services.

LINE 34: PURCHASED SERVICES, HOUSEKEEPING. Cost of outside contractors to provide housekeeping services.

LINE 35: PURCHASED SERVICES, MAINTENANCE. Cost of outside contractors to provide maintenance services.

LINE 36: EQUIPMENT REPAIRS. Expenses related to equipment service agreements and to repairing facility equipment.

LINE 37: EQUIPMENT RENTAL (ENVIRONMENTAL). Rental expense of equipment used to support environmental services, such as floor scrubbers.

LINE 38: BLANK. Use this line for miscellaneous environmental services costs that do not fit the definitions of the lines above. If more than one type of cost is included in this line, please provide a schedule detailing the costs included.

LINE 39: TOTAL ENVIRONMENTAL SERVICES COSTS. The total of all costs in lines 20 through 38.

c. Direct Patient Care Costs

LINE 40: D.O.N. WAGES. Salaries and wages for the director of nursing and assistant director of nursing. Include in this line all regular pay, overtime pay, sick pay, holiday pay, vacation pay, bonus, and other compensation paid to the director of nursing and assistant director of nursing through payroll.

LINE 41: R.N. WAGES. Salaries and wages for registered nurses. Include in this line all regular pay, overtime pay, sick pay, holiday pay, vacation pay, bonus, and other compensation paid to registered nurses through payroll.

LINE 42: L.P.N. WAGES. Salaries and wages for licensed professional nurses. Include in this line all regular pay, overtime pay, sick pay, holiday pay, vacation pay, bonus, and other compensation paid to LPNs through payroll.

LINE 43: C.N.A. WAGES. Salaries and wages for certified nurse aides and certified medication aides. Include in this line all regular pay, overtime pay, sick pay, holiday pay, vacation pay, bonus, and other compensation paid to CNAs through payroll.

LINE 44: REHABILITATION WAGES. Salaries and wages for physical therapists, recreational therapists, occupational therapists, respiratory therapists, speech therapists, and certified rehabilitation nurse aides.

Include in this line all regular pay, overtime pay, sick pay, holiday pay, vacation pay, bonus, and other compensation paid to therapists through payroll. Reduce any expenses for providing services to private pay residents by the related revenue.

LINE 45: ACTIVITIES WAGES. Salaries and wages for positions providing activity services. Include in this line all regular pay, overtime pay, sick pay, holiday pay, vacation pay, bonus, and other compensation paid to activities staff through payroll.

LINE 46: SOCIAL SERVICE WAGES. Salaries and wages for positions providing social services. Report costs associated with a chaplain on this line. Include in this line all regular pay, overtime pay, sick pay, holiday pay, vacation pay, bonus, and other compensation paid to social service staff through payroll.

LINE 47: EMPLOYERS TAXES (DIRECT HEALTH). Payroll taxes related to the salaries and wages included in lines 40 through 46.

LINE 48: GROUP HEALTH, LIFE, AND RETIREMENT BENEFITS (DIRECT HEALTH). Health, life and retirement benefits related to the salaries and wages in lines 40 through 46.

LINE 49: WORKER'S COMP INSURANCE (DIRECT HEALTH). Worker's compensation and professional liability insurance expense related to the salaries and wages in lines 40 through 46.

LINE 50: EMPLOYMENT ADVERTISING AND RECRUITMENT (DIRECT HEALTH). Advertising for hiring of patient care service positions in lines 40 through 46. Hiring bonuses are reported on this line.

LINE 51: CRIMINAL RECORD CHECKS (DIRECT HEALTH). Costs associated with conducting a criminal record check for positions included in lines 40 through 46.

LINE 52: EDUCATION, TRAINING (DIRECT HEALTH). Costs of training seminars and courses, registration fees, course materials, and associated travel and lodging costs for patient care services training except certified nurse aide training relating to certification.

LINE 53: CERTIFIED NURSE AIDE TRAINING. Costs of training courses for certification of nurse aides. Do not include other types of training costs in this line. The federal government reimburses costs associated with CNA training at a different rate than other facility costs. Although this does not affect an individual facility's reimbursement rate, it does affect the federal funding for the Iowa Medicaid program.

LINE 54: CONTRACTED PROFESSIONAL SOCIAL SERVICES. Costs for outside contractors to provide social services.

LINE 55: PROFESSIONAL SUPPORT SERVICES. Costs for professional support services, such as those of a quality assurance nurse.

LINE 56: CONTRACTED NURSING SERVICES. Costs for outside contractors to provide nursing services.

LINE 57: CONTRACTED REHABILITATION SERVICES. Costs for outside contractors to provide rehabilitative therapy services.

LINE 58: BLANK. Use this line for miscellaneous patient care service costs that do not fit the definitions of the lines above. If more than one type of cost is included in this line, please provide a schedule detailing the costs involved.

LINE 59: TOTAL DIRECT PATIENT CARE. The total costs from lines 40 through 58.

d. Support Care Costs

LINE 60: MEDICAL RECORD WAGES. Salaries and wages for positions responsible for maintaining medical records. Include in this line all regular pay, overtime pay, sick pay, holiday pay, vacation pay, bonus, and other compensation paid to medical records staff through payroll.

LINE 61: MEDICAL DIRECTOR. Expenses associated with medical director services.

LINE 62: DIETARY SERVICE WAGES. Salaries and wages for positions that provide dietary services such as dietary supervisors, dietary aides, cooks, and dishwashers. Include in this line all regular pay, overtime pay, sick pay, holiday pay, vacation pay, bonus, and other compensation paid to dietary staff through payroll.

LINE 63: EMPLOYERS TAXES (SUPPORT). Payroll taxes related to the salaries and wages included in lines 60 through 62.

LINE 64: GROUP HEALTH, LIFE, AND RETIREMENT BENEFITS (SUPPORT). Health, life and retirement benefits related to the salaries and wages in lines 60 through 62.

LINE 65: WORKER'S COMP INSURANCE (SUPPORT). Worker's compensation insurance expense related to the salaries and wages in lines 60 through 62.

LINE 66: EMPLOYMENT ADVERTISING AND RECRUITMENT (SUPPORT). Costs of advertising for hiring of support care positions in lines 60 through 62.

LINE 67: CRIMINAL RECORD CHECKS (SUPPORT). Costs associated with conducting a criminal record check for positions included in lines 60 through 62.

LINE 68: SUPPLIES, PATIENT CARE SERVICES. Costs of supplies necessary to provide patient care services, such as medical supplies. Any expenses for providing services to private pay residents should be reduced by the related revenue.

LINE 69: SUPPLIES, DIETARY SERVICES. Costs of non-food supplies necessary to provide dietary services.

LINE 70: SUPPLIES, ACTIVITIES. Costs of supplies used as part of the facility's activities program.

LINE 71: SUPPLIES, SOCIAL SERVICES. Costs of supplies used to deliver social services in the facility.

LINE 72: FOOD AND NUTRITIONAL SUPPLEMENTS. Food and nutritional supplement costs.

LINE 73: PHARMACY SERVICES. Costs of drugs and pharmaceuticals. Reduce any expenses for providing services to private pay residents by the related revenue.

LINE 74: X-RAY SERVICES. X-ray expenses.

LINE 75: LABORATORY. Laboratory services expenses.

LINE 76: PROFESSIONAL SUPPORT SERVICES. Costs for outside contractors to provide professional support services. Report contracted dietary consultant fees here.

LINE 77: EQUIPMENT RENTAL (PATIENT CARE). Rental expense of equipment used to support the patient care services area, such as beds, special chairs, and lifts.

LINE 78: BLANK. Use this line for any other miscellaneous support services costs that does not fit the definitions of the lines above. If more than one type of cost is included in this line, please provide a schedule detailing the costs involved.

LINE 79: TOTAL SUPPORT CARE COSTS. Total costs from lines 60 through 78.

LINE 80: TOTAL PATIENT CARE SERVICES. The sum of lines 59 and 79.

e. Property Costs

LINE 81: DEPRECIATION. Facility depreciation for equipment and buildings. Adjust these costs on Schedule B to convert book depreciation, if other than straight-line, to the straight-line method of depreciation.

The amounts on this line should be consistent with the total amount reported on Schedule D or D-1. See Schedule B instructions for limits that may apply.

LINE 82: AMORTIZATION. Amortization costs for the facility on leasehold improvements, start up costs, etc.

LINE 83: REAL ESTATE TAXES. Property taxes incurred for the facility.

LINE 84: FACILITY LEASE. Rent expenses for lease of the facility only. Include expenses related to rental of facility equipment on the equipment rental lines of the other sections. Facility rent is limited. See instructions under Schedule B for an explanation of the limits.

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LINE 85: INTEREST. Necessary and proper interest incurred on facility loans. Interest paid to a related party is not an allowable expense. Interest expense should be reduced by investment income. See Schedule B instructions for limits that may apply.

LINE 86: PROPERTY AND CASUALTY INSURANCE. Property and casualty insurance on the facility buildings and equipment.

LINE 87: BUILDING AND GROUNDS REPAIRS. Costs for repairing the facility's building and grounds.

LINE 88: BLANK. Use this line for any other miscellaneous property costs that do not fit the definitions of the lines above. If more than one type of cost is included in this line, please provide a schedule detailing the costs involved.

LINE 89: TOTAL PROPERTY COSTS. Total costs from lines 81 through 88.

f. Other Costs

LINE 90: BEAUTY AND BARBER SHOP. Costs to provide beauty and barber shop services at the facility. These costs are not reimbursable, and should be offset 100%.

LINE 91: PERSONAL PURCHASES FOR RESIDENTS. Costs of providing personal items for patients at the facility. These costs are not reimbursable, and should be offset 100%.

LINE 92: INCOME TAXES. Income tax expense incurred during the period. These costs are not reimbursable, and should be offset 100%.

LINE 93: OFFICER'S LIFE INSURANCE. Costs to maintain a key man insurance policy on an officer or administrator where the facility is the beneficiary. These costs are not reimbursable, and should be offset 100%.

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LINE 94: DIRECTOR'S FEES. Fees incurred for the board of directors. These costs are not reimbursable, and should be offset 100%.

LINE 95: NON-WORKING OFFICER'S SALARIES. Salaries and wages paid to officers who did not work at the facility. These costs are not reimbursable, and should be offset 100%.

LINE 96: PROFESSIONAL CARE - PHYSICIANS. Payments made to physicians for other than medical director services. These costs are not reimbursable, and should be offset 100%.

LINE 97: CONTRIBUTIONS. Donations and contributions made by the facility. These costs are not reimbursable, and should be offset 100%.

LINE 98: BLANK. Use this line for any other miscellaneous costs that do not fit the definitions of the lines above.

LINE 99: TOTAL OTHER COSTS. The total costs from lines 90 through 98.

LINE 100: TOTAL OF ALL EXPENSES. The total costs from lines 19, 39, 80, 89, and 99.

6. Schedules D, D-1, E, F, G, and H

Take the information needed to complete Schedules D, D-1, E, F, G, and H from the depreciation schedule and general ledger of the provider. Each schedule is generally self-explanatory. The information must be completed accurately and totals transferred to other schedules as appropriate.

Schedule H must be completed by nursing facilities participating in the Medicaid program.

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